

**REPORT OF THE AUDIT OF THE
KENTON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE KENTON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Kenton County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$3,107,802 from the beginning of the year, resulting in a cash surplus of \$27,177,026 as of June 30, 2002.

Report Comment:

- Lacks Adequate Segregation Of Duties

Notes To Financial Statement:

Deposits - The fiscal court's deposits were insured and collateralized by bank securities or bonds.

Investments - As of June 30, 2002, the county had General Fund Type investments totaling \$6,000,000. The investments were recorded at their carrying amount and are insured or registered or the securities are held by the county or by the county's agent in the county's name. As of June 30, 2002, the county had Debt Service Fund Type investments totaling \$1,012,326. The investments were recorded at their carrying amount and are insured or registered or the securities are held by the county or by the county's agent in the county's name.

Receivables - Receivables were due the Community Development Block Grant Fund for loans made from grant funds totaling \$396,381 as of June 30, 2002.

Long-Term Debt - Bond principal outstanding for the PPC Fund (Nursing and Health Care Facilities Bond Issue) totaled \$1,125,000 as of June 30, 2002. Bond principal outstanding for the PPC Fund (Park and Recreational Facilities Project Bond Issue) totaled \$2,055,000 as of June 30, 2002. Bond principal outstanding for the PPC Fund (Parking Facilities Project Bond Issue) totaled \$14,505,000 as of June 30, 2002. Bond principal outstanding for the PPC Fund (Courthouse Facilities Project Bond Issue) totaled \$18,960,000 as of June 30, 2002.

Long-Term Participation Agreement - Revenue bonds outstanding for the purpose of construction and reconstruction of jail facilities totaled \$2,974,317 as of June 30, 2002.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive

Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Kenton County, Kentucky as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, the statement of revenues, expenses, and changes in retained earnings/net assets, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Kenton County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Kenton County Golf Course Fund or of Kenton Housing, Inc. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Kenton County Golf Course Fund and Kenton Housing, Inc., is based solely upon the reports of the other auditors. The Kenton County Golf Course Fund has been presented as a blended component unit of the county and Kenton Housing, Inc. is a discretely presented component unit of the county.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Kenton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Kenton County Golf Course Fund and the Kenton Housing, Inc. are component units of the county. Their statements are prepared on the accrual basis whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Richard L. Murgatroyd, Kenton County Judge/Executive
Members of the Kenton County Fiscal Court

In our opinion, based on our audit, the accompanying financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions as of June 30, 2002 of Kenton County, Kentucky, and the revenues received and expenditures paid and the cash flows of its enterprise funds for the year then ended, in conformity with the modified cash basis of accounting.

In our opinion, based on the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Kenton County Golf Course Fund as of June 30, 2002 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In our opinion, based on the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Kenton County Housing, Inc. as of December 31, 2002 and the changes in net assets for the years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2003, on our consideration of Kenton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Kenton County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 10, 2003

KENTON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Richard L. Murgatroyd	County Judge/Executive
Barbara Black	Commissioner
Dan Humpert	Commissioner
Adam Koenig	Commissioner

Other Elected Officials:

Garry Edmondson	County Attorney
Terrance Carl	Jailer
William Aylor	County Clerk
Mary Ann Woltenberg	Circuit Court Clerk
Charles L. Korzenborn	Sheriff
Mark Vogt	Property Valuation Administrator
David Suetholz	Coroner

Appointed Personnel:

Ivan Frye	County Treasurer
Rob Owens	Occupational Tax Collector
Brenda Spare	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

KENTON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	Governmental Fund Type			
	General	Special Revenue	Capital Projects	Debt Service
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 12,703,522	\$ 682,240	\$ 695,821	\$ 565,673
Investments (Note 3B)	6,000,000			1,012,326
Notes Receivable (Note 4A)		396,381		
Restricted Cash and Investments-				
Payroll Revolving Account	54			
Retirement Account	926			
Flex Spending Account	6,767			
Self-Insurance Account	1,457,434			
Self-Insurance Fund				
Personal Fund Account				
Investments - Board Restricted for Plant				
Accounts Receivable				
Concession Receivable				
Inventory				
Prepaid Items				
Property Plant and Equipment, Net				
Department Equipment				
Furniture and Fixtures				
Leasehold Improvements				
Motor Vehicles				
Allowance for Depreciation				
Total Assets	<u>\$ 20,168,703</u>	<u>\$ 1,078,621</u>	<u>\$ 695,821</u>	<u>\$ 1,577,999</u>
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:	\$	\$	\$	\$
Bond Payments (Note 6)	2,974,317			36,195,165
Bond Defeasance Costs				
Capital Lease Issuance Cost				
Capital Lease Discount				
Total Other Resources	<u>\$ 2,974,317</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 36,195,165</u>
Total Assets and Other Resources	<u><u>\$ 23,143,020</u></u>	<u><u>\$ 1,078,621</u></u>	<u><u>\$ 695,821</u></u>	<u><u>\$ 37,773,164</u></u>

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only) Primary Government	Component Unit	Totals (Memorandum Only) Reporting Entity
Enterprise	Trust and Agency		Kenton Housing, Inc.	
\$ 269,421	\$ 39,830	\$ 14,956,507	\$ (11,631)	\$ 14,944,876
		7,012,326	2,121,734	9,134,060
		396,381		396,381
		54		54
		926		926
		6,767		6,767
		1,457,434		1,457,434
			1,366	1,366
			45,792	45,792
			680,210	680,210
			997,057	997,057
15,020		15,020		15,020
58,869		58,869	33,497	92,366
			121,717	121,717
5,338,561		5,338,561		5,338,561
			418,266	418,266
			147,926	147,926
			299,034	299,034
			77,041	77,041
			(600,185)	(600,185)
\$ 5,681,871	\$ 39,830	\$ 29,242,845	\$ 4,331,824	\$ 33,574,669
\$	\$	\$	\$	\$
		39,169,482		39,169,482
220,338		220,338		220,338
36,923		36,923		36,923
41,081		41,081		41,081
\$ 298,342	\$ 0	\$ 39,467,824	\$ 0	\$ 39,467,824
\$ 5,980,213	\$ 39,830	\$ 68,710,669	\$ 4,331,824	\$ 73,042,493

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	Governmental Fund Type			
	General	Special Revenue	Capital Projects	Debt Service
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Current Portion of Long-Term Debt	\$	\$	\$	\$
Accounts Payable				
Accrued Payroll				
Accrued Compensated Absences				
Other Accrued Liabilities				
Gift Certificates Outstanding				
Provision for Health Insurance				
Bonds:				
KLCFCA Revenue Issue (Note 6)	2,974,317			
Nursing And Healthcare Issue (Note 5A)				1,125,000
Park and Recreational Issue (Note 5B)				2,055,000
Parking Facilities Issue (Note 5C)				14,505,000
Courthouse Issue (Note 5D)				18,960,000
Deferred Revenue (Note 4A)		396,381		
Other Long-Term Liabilities				
Total Liabilities	\$ 2,974,317	\$ 396,381	\$ 0	\$ 36,645,000
<u>Equity</u>				
Fund Balances:				
Reserved	\$ 10,175,405	\$ 682,240	\$ 695,821	\$ 1,128,164
Unreserved	9,993,298			
Fiscal Court Contributions				
Recreation Project Grant				
Revenue Sharing Allocation				
Retained Earnings				
Total Equity	\$ 20,168,703	\$ 682,240	\$ 695,821	\$ 1,128,164
Total Liabilities and Equity	\$ 23,143,020	\$ 1,078,621	\$ 695,821	\$ 37,773,164

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only) Primary Government	Component Unit	Totals (Memorandum Only) Reporting Entity
Enterprise	Trust and Agency		Kenton Housing, Inc.	
\$ 345,000	\$	\$ 345,000	\$	\$ 345,000
24,535		24,535	201,679	226,214
27,150		27,150	201,805	228,955
90,531		90,531		90,531
58,056		58,056	126,760	184,816
20,692		20,692		20,692
			51,368	51,368
		2,974,317		2,974,317
		1,125,000		1,125,000
		2,055,000		2,055,000
		14,505,000		14,505,000
		18,960,000		18,960,000
		396,381		396,381
2,880,000		2,880,000		2,880,000
\$ 3,445,964	\$ 0	\$ 43,461,662	\$ 581,612	\$ 44,043,274
\$ 26,189	\$ 39,830	\$ 12,747,649	\$	\$ 12,747,649
		9,993,298	3,750,212	13,743,510
398,073		398,073		398,073
481,181		481,181		481,181
1,628,806		1,628,806		1,628,806
\$ 2,534,249	\$ 39,830	\$ 25,249,007	\$ 3,750,212	\$ 28,999,219
\$ 5,980,213	\$ 39,830	\$ 68,710,669	\$ 4,331,824	\$ 73,042,493

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

KENTON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 17,504,700	\$ 1,171,832	\$ 3,163,761	\$ 20,998
Transfers In	325,000	3,836,986	3,260,000	
Transfers In - Admin. Fees and Other	1,963,602			
Tax Anticipation Note Borrowed	11,149,900			
Contributions				
City Payroll Taxes Collected				
Medicaid Intergovernmental Transfer	13,620,750			
Other Revenue				
Total Cash Receipts	<u>\$ 44,563,952</u>	<u>\$ 5,008,818</u>	<u>\$ 6,423,761</u>	<u>\$ 20,998</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 12,780,127	\$ 5,254,300	\$ 6,047,199	\$ 19,000
Transfers Out	6,290,000	225,000		
Transfers Out - Admin. Fees and Other	219,380			
Claims Paid				
Bond Principal Paid			144,914	
Bond Interest Paid				
Tax Anticipation Note Repaid	11,149,900			
City Payroll Taxes Distributed				
Medicaid Intergovernmental Transfer	13,620,750			
Other Expenditures				
Total Cash Disbursements	<u>\$ 44,060,157</u>	<u>\$ 5,479,300</u>	<u>\$ 6,192,113</u>	<u>\$ 19,000</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 503,795	\$ (470,482)	\$ 231,648	\$ 1,998
Cash Balance - July 1, 2001	<u>7,742,626</u>	<u>1,526,315</u>	<u>441,758</u>	<u>15,640</u>
Cash Balance - June 30, 2002	<u>\$ 8,246,421</u>	<u>\$ 1,055,833</u>	<u>\$ 673,406</u>	<u>\$ 17,638</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

General Fund Type				
Occupational License Tax Fund	Self-Insurance Fund	Flex Spending Account	Kenton County/Cities Tax Collection Account	Kenton County Tax Refund Account
\$ 737,865	\$	\$	\$ 14,310,864	\$
14,187,852				4,653,250
	2,965,029	20,405	11,811,496	
	784,876			
<u>\$ 14,925,717</u>	<u>\$ 3,749,905</u>	<u>\$ 20,405</u>	<u>\$ 26,122,360</u>	<u>\$ 4,653,250</u>
\$ 8,551,104	\$	\$	\$	\$
906,986				
7,530,695			14,310,863	
	3,661,653			
			11,811,706	
	278,392	21,224		4,650,234
<u>\$ 16,988,785</u>	<u>\$ 3,940,045</u>	<u>\$ 21,224</u>	<u>\$ 26,122,569</u>	<u>\$ 4,650,234</u>
\$ (2,063,068)	\$ (190,140)	\$ (819)	\$ (209)	\$ 3,016
10,762,763	1,647,574	7,586	7,722	
<u>\$ 8,699,695</u>	<u>\$ 1,457,434</u>	<u>\$ 6,767</u>	<u>\$ 7,513</u>	<u>\$ 3,016</u>

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

	<u>Special Revenue Fund Type</u>		<u>Capital Projects Fund Type</u>	
	Community Development Block Grant Fund	Special Police Fund	Public Properties Corporation Fund-Parking Facilities Project	Public Properties Corporation Fund-Courthouse Facilities Project
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 334,836	\$	\$ 6,733	\$ 13,668
Transfers In				
Transfers In - Admin. Fees and Other				
Tax Anticipation Note Borrowed				
Contributions				
City Payroll Taxes Collected				
Medicaid Intergovernmental Transfer				
Other Revenue		40,354		
Total Cash Receipts	<u>\$ 334,836</u>	<u>\$ 40,354</u>	<u>\$ 6,733</u>	<u>\$ 13,668</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 313,000	\$	\$	\$
Transfers Out				
Transfers Out - Admin. Fees and Othe		56,742	362,840	846,008
Claims Paid				
Bond Principal Paid				
Bond Interest Paid				
Tax Anticipation Note Repaid				
City Payroll Taxes Distributed				
Medicaid Intergovernmental Transfer				
Other Expenditures				
Total Cash Disbursements	<u>\$ 313,000</u>	<u>\$ 56,742</u>	<u>\$ 362,840</u>	<u>\$ 846,008</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 21,836	\$ (16,388)	\$ (356,107)	\$ (832,340)
Cash Balance - July 1, 2001	<u>539,382</u>	<u>137,410</u>	<u>597,200</u>	<u>1,287,068</u>
Cash Balance - June 30, 2002	<u>\$ 561,218</u>	<u>\$ 121,022</u>	<u>\$ 241,093</u>	<u>\$ 454,728</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

Debt Service Fund Type					
Public Properties Corporation Fund-Nursing and Health Care Project	Public Properties Corporation Fund-Park and Recreational Facilities Project	Public Properties Corporation Fund-Parking Facilities Project	Public Properties Corporation Fund-Courthouse Facilities Project		Totals (Memorandum Only)
\$ 59,302	\$ 329	\$ 2,758	\$ 9,723	\$	37,337,369
					7,421,986
875,321	219,380	1,427,123			23,326,528
					11,149,900
					2,985,434
					11,811,496
					13,620,750
7,199			1,296,000		2,128,429
<u>\$ 941,822</u>	<u>\$ 219,709</u>	<u>\$ 1,429,881</u>	<u>\$ 1,305,723</u>	<u>\$</u>	<u>109,781,892</u>
\$	\$	\$	\$	\$	32,964,730
					7,421,986
					23,326,528
					3,661,653
835,000	105,000	630,000	335,000		2,049,914
63,524	114,380	797,123	957,650		1,932,677
					11,149,900
					11,811,706
					13,620,750
					4,949,850
<u>\$ 898,524</u>	<u>\$ 219,380</u>	<u>\$ 1,427,123</u>	<u>\$ 1,292,650</u>	<u>\$</u>	<u>112,889,694</u>
\$ 43,298	\$ 329	\$ 2,758	\$ 13,073	\$	(3,107,802)
1,087,665	14,634	96,561	319,681		26,231,585
<u>\$ 1,130,963</u>	<u>\$ 14,963</u>	<u>\$ 99,319</u>	<u>\$ 332,754</u>	<u>\$</u>	<u>23,123,783</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/NET ASSETS

KENTON COUNTY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/NET ASSETS

For The Fiscal Year Ended June 30, 2002

	<u>Proprietary Fund Type</u>		Totals (Memorandum Only)
	<u>Jail Canteen Profit Account</u>	<u>Kenton County Golf Course</u>	<u>Primary Government</u>
Operating Revenues			
Pro-Shop Sales	\$	\$ 139,900	\$ 139,900
Less Cost of Sales		97,599	97,599
Pro-Shop Gross Profit		42,301	42,301
Jail Canteen Receipts	46,062		46,062
Green Fees		1,620,176	1,620,176
Rentals-Power Carts		607,354	607,354
Rentals-Miscellaneous		11,541	11,541
Concession Commissions		111,790	111,790
Operating Support			
Total Operating Revenues	46,062	2,393,162	2,439,224
Operating Expenses			
Payroll Expenses		1,305,184	1,305,184
Golf Course Expenses		790,700	790,700
Clubhouse and Pro-Shop Expenses		196,529	196,529
General and Administrative Expenses		105,897	105,897
Nursing			
Social Services			
Dietary			
Laundry			
Housekeeping			
Jail Canteen Expenditures	49,539		49,539
Total Operating Expenses	49,539	2,398,310	2,447,849
Net Income (Loss) From Operations	(3,477)	(5,148)	(8,625)

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/NET ASSETS
For The Fiscal Year Ended June 30, 2002
(Continued)

<u>Component Unit</u>	
Kenton Housing, Inc.	Totals (Memorandum Only) Reporting Entity
\$	\$ 139,900
	97,599
	42,301
	46,062
	1,620,176
	607,354
	11,541
	111,790
9,808,301	9,808,301
9,808,301	12,247,525
	1,305,184
	790,700
	196,529
	105,897
5,321,386	5,321,386
299,447	299,447
1,580,987	1,580,987
246,586	246,586
828,030	828,030
	49,539
8,276,436	10,724,285
1,531,865	1,523,240

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/NET ASSETS
For The Fiscal Year Ended June 30, 2002
(Continued)

	Proprietary Fund Type		Totals (Memorandum Only)
	Jail Canteen Profit Account	Kenton County Golf Course	Primary Government
Other Income and (Expenses)			
Interest Expense	\$	\$ (154,783)	\$ (154,783)
Interest Income		15,945	15,945
Indirect Expenses			
Depreciation and Amortization			
Miscellaneous Income		9,834	9,834
Net Gains/(Losses) On Investments			
Investment Fees			
Total Other Income and (Expenses)		(129,004)	(129,004)
Net (Loss) Income/Net Assets	(3,477)	(134,152)	(137,629)
Retained Earnings/Net Assets - as of July 1, 2001	\$ 29,666	\$ 1,762,958	\$ 1,792,624
Retained Earnings/Net Assets - as of June 30, 2002	\$ 26,189	\$ 1,628,806	\$ 1,654,995

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/NET ASSETS
For The Fiscal Year Ended June 30, 2002
(Continued)

<u>Component Unit</u>	Totals (Memorandum Only) Reporting Entity
Kenton Housing, Inc.	
\$	\$ (154,783)
122,427	138,372
(1,980,677)	(1,980,677)
(80,819)	(80,819)
	9,834
(383,719)	(383,719)
(15,392)	(15,392)
<u>(2,338,180)</u>	<u>(2,467,184)</u>
<u>(806,315)</u>	<u>(943,944)</u>
<u>\$ 4,556,527</u>	<u>\$ 6,349,151</u>
<u>\$ 3,750,212</u>	<u>\$ 5,405,207</u>

The accompanying notes are an integral part of the financial statements.

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COMBINED STATEMENT OF CASH FLOWS –
PROPRIETARY FUND TYPES

KENTON COUNTY
COMBINED STATEMENT OF CASH FLOWS -
PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Funds</u>		Totals (Memorandum Only)
	<u>Jail Canteen Profit Account</u>	<u>Kenton County Golf Course</u>	<u>Primary Government</u>
Cash Flows From Operating Activities:			
Net (Loss) Income From Operations	\$ (3,477)	\$ (5,148)	\$ (8,625)
Reconciliation of Net (Loss) Income with			
Cash Flows from Operations			
Depreciation		477,939	477,939
Amortization		37,293	37,293
Loss on Trade of Fixed Assets		9,507	9,507
Changes In			
Concession Receivable		2,653	2,653
Inventory		(9,162)	(9,162)
Accounts Payable		(18,191)	(18,191)
Accrued Liabilities		9,505	9,505
Gift Certificates Outstanding		(4,174)	(4,174)
Net Cash Provided (Used) By Operating Activities	<u>\$ (3,477)</u>	<u>\$ 500,222</u>	<u>\$ 496,745</u>
Cash Flows From Noncapital Financing Activities:			
Non-Operating Income	\$	\$ 9,834	\$ 9,834
Cash Flows From Capital And Related Financing Activities:			
Payments for Capital Acquisitions	\$	\$ (250,221)	\$ (250,221)
Principal Payments on Long-Term Debt		(360,000)	(360,000)
Interest Payments on Long-Term Debt		(154,783)	(154,783)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ 0</u>	<u>\$ (765,004)</u>	<u>\$ (765,004)</u>
Cash Flows from Investing Activities:			
Interest on Deposits	\$	\$ 15,945	\$ 15,945
Net Change in Cash	(3,477)	(239,003)	(242,480)
Cash and Cash Equivalents at Beginning of Period	<u>29,666</u>	<u>482,235</u>	<u>511,901</u>
Cash and Cash equivalents at End of Period	<u>\$ 26,189</u>	<u>\$ 243,232</u>	<u>\$ 269,421</u>

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Kenton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation Funds as part of the reporting entity. Also included are the Kenton County Golf Course Fund and Kenton Housing, Inc. (Rosedale Manor Nursing Home).

Public Properties Corporation Funds are component units. Kenton County is financially accountable for Public Properties. They were set up solely for the benefit of the Kenton County Fiscal Court, and the Board of Directors of the Public Properties Corporation Funds consists of members of the Fiscal Court. Their financial data is blended with the financial data of the county.

The Kenton County Golf Course Fund is a component unit of the county. It is legally a part of the county. This fund is reported as an enterprise fund

Kenton Housing, Inc. (Rosedale Manor Nursing Home) is a discretely presented component unit. The nursing home is owned by the county and therefore is a component unit of Kenton County. Kenton County Public Properties Corporation issued bonds for the construction of Rosedale Manor in 1993. TANK taxes are used for payment of bond principal and interest. Therefore, the facility is a financial burden to the county. This component unit has a December 31, 2002 year-end.

Additional - Kenton County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Kenton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Kenton County Fiscal Court's fund types, a definition of each, and county funds included within each fund type is listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Kenton County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Occupational License Tax Fund, County/Cities Tax Account, Flex Spending Account, Self-Insurance Fund, and the Tax Refund Account.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The CDBG Fund and the Special Police Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and include funds for the Public Properties Corporation Fund - Nursing and Healthcare Project, Public Properties Corporation Fund - Park and Recreational Facilities Project, Public Properties Corporation Fund - Parking Facilities Project, and the Public Properties Corporation Fund - Courthouse Facilities Project. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Public Properties Corporation Fund - Parking Facilities Project and the Public Properties Corporation Fund - Courthouse Facilities Project Fund of the Fiscal Court are reported as Capital Projects Fund Types.

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Kenton County Enterprise Fund Type includes the Jail Profit Account and the Kenton County Golf Course.

The canteen is maintained by the county jailer and its operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

6) Fiduciary Fund Type

Fiduciary Funds are used to account for assets held by the county in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds, (d) investment trust funds, and (e) agency funds. The Jail Inmate Account is an agency fund and is used to report the inmate resources held by the County in a custodial capacity.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided for in future years.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets are not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

The Kenton County Golf Course Fund and the Kenton County Housing, Inc. are component units of the county. Their statements are prepared on the accrual basis whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Kenton County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1. The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund - Nursing and Healthcare Project, Public Properties Corporation Fund - Park and Recreational Facilities Project, Public Properties Corporation Fund - Parking Facilities Project, and the Public Properties Corporation Fund - Courthouse Facilities Project because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following is considered a related organization of the Kenton County Fiscal Court: Kenton County Airport Authority.

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the following are considered joint ventures of the Kenton County Fiscal Court: Convention & Visitor's Bureau, Convention Center's Board, Sanitation District Board, Telecommunications Board of Northern Kentucky, and the Northern Kentucky Drug Strike Force.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 3. Deposits and Investments (Continued)

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount
	1	2	3	
<u>General Fund Type</u>				
U.S. Treasury Notes	\$ 6,000,000	\$	\$	\$ 6,000,000
<u>Debt Service Fund Type</u>				
U.S. Treasury Notes	1,012,326			1,012,326
Totals	\$ 7,012,326	\$ 0	\$ 0	\$ 7,012,326

Note 4. Accounts Receivable and Uncollected Accounts Receivable

A. Accounts Receivable

The following receivables were due the Community Development Block Grant Fund for loans made from grant funds:

Due From	Interest/Length of Loan	Balance Due June 30, 2002
Fort Mitchell Development LLC (12/1/86)	3%/15 Years	\$ 319,776
Piner-Fiskburg Ambulance Service (8/27/97)	5%/5 Years	7,087
Kenton County Volunteer Fire Department	5%/15 Years	69,518
Total		<u>\$ 396,381</u>

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Accounts Receivable and Uncollected Accounts Receivable (Continued)

B. Uncollected Accounts Receivable

The county has past due accounts receivable from the Fort Mitchell Developers, LLC. As of June 30, 2002, Fort Mitchell Developers, LLC owed the county 9 quarterly interest payments totaling \$21,585. The payments are related to a loan made available by the county through the Community Development Block Grant. Fort Mitchell Developers, LLC owes the county an additional 4 interest payments since June 30, 2002 totaling \$9,593, leaving a total of \$31,178 due the county as of August 31, 2003. As of August 31, 2003, the county had not taken legal action.

Note 5. Long-Term Debt

A. Public Properties Corporation Fund - Nursing and Health Care Facilities Bond Issue:

The Corporation issued first mortgage bonds dated December 1, 1967, to provide funds for the construction of the Covington-Kenton County Municipal Building. The total bond issue of \$3,465,000 was in denominations of \$5,000; these bonds mature on December 1 of years between 1969 and 2007, with interest of 5.50% to 6% payable on June 1 and December 1 of each year. The debt service requirements were to be paid 25% by the county and 75% by the city as rentals for the use of the property.

On July 3, 1985, Kenton County Fiscal Court contributed \$1,782,942 to the Covington-Kenton County Public Properties Escrow Fund of 1985 in order to effect the defeasance of the outstanding bonds. This amount, in addition to the \$228,360 transferred from the debt service fund, has been determined to be sufficient to meet all bonds and interest payments as they become due. Peoples Liberty Bank and Trust Company is the escrow agent.

In order to effect the refunding of the 1989 Series first mortgage bonds, the Kenton County Fiscal Court also contributed \$1,999,992 to the Kenton County Public Properties Corporation 1989 Bond Defeasance Escrow Fund. A total of \$7,713,235 is available to pay the old bonds as they come due. This escrow fund has been determined to be sufficient to meet all bond and interest payments as they become due. Fifth Third Bank is the escrow agent.

The Kenton County Public Properties Corporation issued first mortgage refunding bonds dated June 2, 1993, to provide funds for the refunding of the 1989 Series first mortgage bonds for the construction of the Kenton County Nursing Home (Rosedale Manor). The total bond issue of \$7,575,000 was in denominations of \$5,000; these bonds mature on October 1 of years between 1993 and 2003, with interest of 4% to 4.125% payable on April 1 and October 1 of each year. The bonds outstanding at June 30, 2002, were \$1,125,000. The debt service requirements for future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>
2003	4.125%	\$ 860,000	\$ 28,669
2004	4.125%	265,000	5,466
Total		<u>\$ 1,125,000</u>	<u>\$ 34,135</u>

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Long-Term Debt (Continued)

B. Public Properties Corporation Fund - Park and Recreational Facilities Project Bond Issue:

The Kenton County Public Properties Corporation issued first mortgage revenue bonds to provide funds for a park and recreational facilities project dated July 1, 1995. The total bond issue of \$2,700,000 was in denominations of \$5,000; these bonds mature on April 1 of years between 1996 and 2015, with interest of 3.5% to 5.65% payable on April 1 and October 1 of each year. The bonds outstanding on June 30, 2002, were \$2,055,000. Fifth Third Bank is the escrow agent. The debt service requirements for future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>
2003	4.60%	\$ 110,000	\$ 109,655
2004	4.60%	115,000	104,595
2005	4.90%	125,000	99,132
2006	5.00%	130,000	93,008
2007	5.15%	135,000	86,508
2008-2012	5.25-5.40%	820,000	313,677
2013-2015	5.65%	620,000	73,073
Total		<u>\$ 2,055,000</u>	<u>\$ 879,648</u>

C. Public Properties Corporation Fund - Parking Facilities Project Bond Issue:

The Kenton County Public Properties Corporation issued first mortgage revenue bonds to provide funds for a parking facilities project dated December 1, 1996. The total bond issue of \$17,400,000 was in denominations of \$5,000 and integral multiples thereof; these bonds mature on December 1 of years between 1997 and 2016, with interest of 4.5% to 5.7% payable on June 1 and December 1 of each year. The bonds outstanding on June 30, 2002, were \$14,505,000. Fifth Third Bank is the paying agent and bond registrar. The debt service requirements for future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>
2003	4.70%	\$ 660,000	\$ 766,808
2004	4.80%	690,000	734,738
2005	4.90%	725,000	700,415
2006	5.00%	760,000	663,652
2007	5.10%	800,000	624,253
2008-2012	5.20% - 5.60%	4,685,000	2,420,379
2013-2015	5.625% - 5.7%	6,185,000	917,223
Total		<u>\$ 14,505,000</u>	<u>\$ 6,827,468</u>

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Long-Term Debt (Continued)

D. Public Properties Corporation Fund - Courthouse Facilities Project Bond Issue:

The Kenton County Public Properties Corporation issued first mortgage revenue bonds to provide funds for a courthouse facilities project dated June 1, 1998. The total bond issue of \$19,920,000 was in multiples of \$5,000 and integral multiples thereof; these bonds mature on March 1 of years between 2000 and 2029, with interest of 4.85% to 5.00% payable on March 1 and September 1 of each year. The bonds outstanding as of June 30, 2002, were \$18,960,000. Fifth Third Bank is the paying agent. The debt service requirements for future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>
2003	4.85%	\$ 350,000	\$ 941,403
2004	4.85%	370,000	924,428
2005	4.85%	385,000	906,482
2006	4.85%	405,000	887,810
2007	4.85%	425,000	868,168
2008-2012	4.85% - 4.90%	2,455,000	4,011,280
2013-2017	4.95% - 5.00%	3,115,000	3,345,968
2018-2022	5.00%	3,980,000	2,485,250
2023-2027	5.00%	5,075,000	1,385,750
2028-2029	5.00%	2,400,000	181,500
Total		<u>\$ 18,960,000</u>	<u>\$ 15,938,039</u>

Note 6. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$10,495,487 of revenue bonds at various interest rates (4.5% through 7.0%), of which the county has agreed to pay \$4,438,213 principal and a proportional share of interest on the issue. Revenue bonds outstanding at June 30, 2002, totaled \$2,974,317. Debt service requirements due in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 154,103	\$ 183,715
2004	163,874	173,633
2005	174,266	162,916
2006	185,316	151,512
2007	197,066	139,389
2008-2012	1,189,391	486,415
2013-2015	910,301	88,943
Total	<u>\$ 2,974,317</u>	<u>\$ 1,386,523</u>

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 7. Self-Insurance Funds

Kenton County maintains a health insurance fund to provide health and dental insurance for their employees. They also maintain a self-insurance fund to provide liability and workmen's compensation for their employees.

Note 8. Flex Spending Account

Kenton County maintains a flex spending account to provide tax-sheltered deductions for dependent childcare and medical expenses.

Note 9. Kenton County Tax Refund Account

Kenton County opened a tax refund account in February 2002. The account was set up to refund taxpayers their portion of occupational license taxes based on Executive Order 01-140. The order authorized the County Treasurer to stop collecting an increase in occupational license taxes based on Ordinance No. 225.19 and 225.25. The order further authorized the County Treasurer to submit a plan for the repayment of said taxes. The order was issued on the basis of a June 1, 2001 decision by the Kenton Circuit Court, which challenged the legality of the increase. On December 18, 2001, the fiscal court approved the County Treasurer's plan to repay the occupational license tax. As of September 12, 2003 the county has distributed \$4,801,650 in refunds.

Note 10. Intergovernmental Transfer Program

The county is involved in the Intergovernmental Transfer Program (IGT) sponsored by the Cabinet for Health Services - Department for Medicaid Services. The program calls for the county to provide intergovernmental transfers to the Commonwealth in order to qualify Rosedale Manor Nursing Home, the county-owned facility, to receive enhanced payments for services provided to Medicaid-eligible residents. The local government funds are used as the state match for Medicaid programs. By doing this, more federal matching funds are made available to the state as long as they are used for the Medicaid program.

Note 11. Pending Litigation

There is a lawsuit against Kenton County Fiscal Court by the City of Covington, et al. It is a lawsuit to declare that the County's occupational license fee is illegal. This matter is not covered by insurance. The impact of this litigation, if it is successful against the County, is that it would result in a substantial decrease in income to the County and many County agencies, as well as organizations which depend upon the fee for a substantial part of their operating budget. The outcome of this litigation has not yet been determined.

KENTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 12. Inmate Account

Presentation of Changes in Assets and Liabilities is required for Trust and Agency Funds. The Jail Inmate Account is presented as a Trust and Agency Fund; therefore, presentation of this information is required.

Jail Inmate Account	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
Assets:				
Cash With Fiscal Agents	\$ 23,577	\$ 525,833	\$ 509,580	\$ 39,830
Total Assets	<u>\$ 23,577</u>	<u>\$ 525,833</u>	<u>\$ 509,580</u>	<u>\$ 39,830</u>
Liabilities:				
Amounts Held In				
Custody For Others	\$ 23,577	\$ 525,833	\$ 509,580	\$ 39,830
Total Liabilities	<u>\$ 23,577</u>	<u>\$ 525,833</u>	<u>\$ 509,580</u>	<u>\$ 39,830</u>

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

KENTON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 21,033,000	\$ 17,504,700	\$ (3,528,300)
Road and Bridge Fund	4,831,186	1,171,832	(3,659,354)
Jail Fund	5,977,000	3,163,761	(2,813,239)
Local Government Economic Assistance Fund	17,500	20,998	3,498
Occupational License Tax Fund	10,893,014	737,865	(10,155,149)
County/Cities Tax Collection Account		14,310,864	14,310,864
<u>Special Revenue Fund Type</u>			
Community Development Block Grant Fund	<u>440,000</u>	<u>334,836</u>	<u>(105,164)</u>
Totals	<u>\$ 43,191,700</u>	<u>\$ 37,244,856</u>	<u>\$ (5,946,844)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 43,191,700
Add: Budgeted Prior Year Surplus			19,654,314
Less: Other Financing Uses			<u>(13,844,850)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 49,001,164</u>

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SCHEDULE OF OPERATING REVENUE

KENTON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	Totals (Memorandum Only)	Governmental Fund Type			
		General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 25,300,365	\$ 25,300,365	\$	\$	\$
In Lieu Tax Payments	35,478	35,478			
Excess Fees	1,240,152	1,240,152			
Licenses and Permits	157,129	157,129			
Intergovernmental Revenues	4,777,312	4,477,312	300,000		
Charges for Services	2,881,387	2,881,387			
Miscellaneous Revenues	2,046,337	2,026,337	20,000		
Interest Earned	899,209	791,860	14,836	20,401	72,112
Total Operating Revenue	<u>\$ 37,337,369</u>	<u>\$ 36,910,020</u>	<u>\$ 334,836</u>	<u>\$ 20,401</u>	<u>\$ 72,112</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

KENTON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	General Fund Type		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 3,399,764	\$ 2,963,250	\$ 436,514
Protection to Persons and Property	8,706,761	8,370,476	336,285
General Health and Sanitation	2,961,777	1,762,965	1,198,812
Social Services	6,667,286	966,130	5,701,156
Recreation and Culture	984,132	775,875	208,257
Roads	3,371,043	2,948,122	422,921
Bus Service	7,311,313	6,314,421	996,892
Other Transportation Facilities and Services	2,938,865		2,938,865
Road Facilities	1,071,185	923,699	147,486
Debt Service	169,700	193,195	(23,495)
Capital Projects	2,222,500	1,362,353	860,147
Administration	8,196,838	6,071,244	2,125,594
TOTAL OPERATING BUDGET - GENERAL FUND TYPE	\$ 48,001,164	\$ 32,651,730	\$ 15,349,434
Other Financing Uses:			
Tax Anticipation Note- Principal	11,149,900	11,149,900	
Transfers to Public Property Corporation Funds	2,550,000	2,521,824	28,176
Jail Capital Lease Obligation- Principal on Bonds	144,950	144,914	36
TOTAL BUDGET - GENERAL FUND TYPE	\$ 61,846,014	\$ 46,468,368	\$ 15,377,646
Expenditure Categories	Special Revenue Fund Type		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 957,000	\$ 313,000	\$ 644,000
Administration	43,000		43,000
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 1,000,000	\$ 313,000	\$ 687,000

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Richard L. Murgatroyd, Kenton County Judge/Executive
Members of the Kenton County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Kenton County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kenton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kenton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Kenton County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 10, 2003

COMMENT AND RECOMMENDATION

KENTON COUNTY
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2002

REPORTABLE CONDITION AND MATERIAL WEAKNESS

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition and a material weakness under standards established by the American institute of Certified Public Accountants. During the audit it was noted that the senior accountant/office manager inputs receipts, prepares deposits, and prepares bank reconciliations. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. Therefore, the Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition. We recommend the fiscal court separate the cash safekeeping function from the cash reconciling function.

County Judge/Executive Richard L. Murgatroyd's Response:

Agreed and being done.

County Treasurer Ivan Frye's Response:

Agreed and being done.

PRIOR YEAR FINDINGS

Lacks Adequate Segregation Of Duties

This comment has not been resolved and is repeated in the current audit.

The Jailer Should Prepare Monthly Bank Reconciliations And Report Annually To The County Treasurer

This comment has been resolved.

The Occupational Tax Collector Should Be Adequately Bonded

This comment has been resolved.

The County Should Develop Written Operating Policies And Procedures As Part Of Their Control Activities For Federal Grants

A single audit was not required this year.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

KENTON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
KENTON COUNTY FISCAL COURT

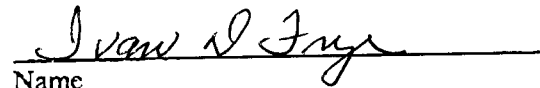
Fiscal Year Ended June 30, 2002

The Kenton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

CPA REPORT ON KENTON COUNTY GOLF COURSE

KENTON COUNTY GOLF COURSE

June 30, 2002

*FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
INCLUDING SUPPLEMENTAL INFORMATION*

**KENTON COUNTY GOLF COURSE
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INDEPENDENT AUDITORS' REPORT

Judge Executive and Members of
Kenton County Fiscal Court

We have audited the accompanying financial statements of Kenton County Golf Course (a component unit of the Kenton County Fiscal Court) as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenton County Golf Course as of June 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 22, 2002 on our consideration of Kenton County Golf Course's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statements of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
August 22, 2002

**KENTON COUNTY GOLF COURSE
BALANCE SHEETS**

ASSETS

	June 30,	
	<u>2002</u>	<u>2001</u>
Current Assets		
Cash and Cash Equivalents	\$ 243,232	\$ 482,235
Concession Receivable	15,020	17,673
Inventory	<u>58,869</u>	<u>49,707</u>
Total Current Assets	<u>317,121</u>	<u>549,615</u>
Property, Plant and Equipment, Net	<u>5,338,561</u>	<u>5,575,786</u>
Other Assets		
Bond Defeasance Costs (Net of Accumulated Amortization of \$137,712 and \$110,169, Respectively)	220,338	247,880
Capital Lease Issuance Cost (Net of Accumulated Amortization of \$23,077 and \$18,461, Respectively)	36,923	41,539
Capital Lease Discount (Net of Accumulated Amortization of \$25,675 and \$20,540, Respectively)	<u>41,081</u>	<u>46,216</u>
Total Other Assets	<u>298,342</u>	<u>335,635</u>
Total Assets	<u>\$ 5,954,024</u>	<u>\$ 6,461,036</u>

LIABILITIES AND FUND EQUITY

Current Liabilities		
Current Portion of Long-Term Debt	\$ 345,000	\$ 360,000
Accounts Payable	24,535	42,726
Accrued Payroll	27,150	24,356
Accrued Compensated Absences	90,531	74,433
Other Accrued Liabilities	58,056	67,443
Gift Certificates Outstanding	<u>20,692</u>	<u>24,866</u>
Total Current Liabilities	565,964	593,824
Long-Term Debt	<u>2,880,000</u>	<u>3,225,000</u>
Total Liabilities	<u>3,445,964</u>	<u>3,818,824</u>
Fund Equity		
Fiscal Court Contributions		
Recreation Project Grant	398,073	398,073
Revenue Sharing Allocation	481,181	481,181
Retained Earnings	<u>1,628,806</u>	<u>1,762,958</u>
Total Fund Equity	<u>2,508,060</u>	<u>2,642,212</u>
Total Liabilities and Fund Equity	<u>\$ 5,954,024</u>	<u>\$ 6,461,036</u>

See accompanying notes.

**KENTON COUNTY GOLF COURSE
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS**

	Years Ended June 30,	
	2002	2001
Operating Revenues		
Pro-Shop Sales	\$ 139,900	\$ 162,683
Less Cost of Sales	<u>97,599</u>	<u>111,091</u>
Pro-Shop Gross Profit	42,301	51,592
Green Fees	1,620,176	1,699,326
Rentals-Power Carts	607,354	620,412
Rentals-Miscellaneous	11,541	13,820
Concession Commissions	<u>111,790</u>	<u>98,750</u>
Total Operating Revenues	<u>2,393,162</u>	<u>2,483,900</u>
Operating Expenses		
Payroll Expenses	1,305,184	1,203,003
Golf Course Expenses	790,700	742,303
Clubhouse and Pro-Shop Expenses	196,529	148,641
General and Administrative Expenses	<u>105,897</u>	<u>109,143</u>
Total Operating Expenses	<u>2,398,310</u>	<u>2,203,090</u>
Net (Loss) Income From Operations	<u>(5,148)</u>	<u>280,810</u>
Other Income and (Expenses)		
Interest Expense	(154,783)	(171,856)
Interest Income	15,945	27,830
Miscellaneous Income	<u>9,834</u>	<u>9,216</u>
Total Other Income and (Expenses)	<u>(129,004)</u>	<u>(134,810)</u>
Net (Loss) Income	(134,152)	146,000
Retained Earnings, Beginning	<u>1,762,958</u>	<u>1,616,958</u>
Retained Earnings, Ending	<u>\$ 1,628,806</u>	<u>\$ 1,762,958</u>

See accompanying notes.

**KENTON COUNTY GOLF COURSE
STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2002	2001
Cash Flows From Operating Activities		
Net (Loss) Income from Operations	\$ (5,148)	\$ 280,810
Reconciliation of Net (Loss) Income with		
Cash Flows from Operations		
Depreciation	477,939	440,783
Amortization	37,293	37,293
Loss on Trade of Fixed Assets	9,507	-
Changes In		
Concession Receivable	2,653	1,005
Other Receivables	-	8,817
Inventory	(9,162)	15,565
Accounts Payable	(18,191)	(25,005)
Accrued Liabilities	9,505	(33,830)
Gift Certificates Outstanding	(4,174)	12,563
Net Cash Provided by Operating Activities	<u>500,222</u>	<u>738,001</u>
Cash Flows Provided by Non-Capital		
Financing Activities		
Non-Operating Income	<u>9,834</u>	<u>9,216</u>
Cash Flows From Capital and Related		
Financing Activities		
Payments for Capital Acquisitions	(250,221)	(257,295)
Principal Payments on Long-Term Debt	(360,000)	(366,296)
Interest Payments on Long-Term Debt	<u>(154,783)</u>	<u>(171,856)</u>
Net Cash Used by Capital and Related		
Financing Activities	<u>(765,004)</u>	<u>(795,447)</u>
Cash Flows From Investing Activities		
Interest on Deposits	<u>15,945</u>	<u>27,830</u>
Net Change in Cash	(239,003)	(20,400)
Cash at Beginning of Period	<u>482,235</u>	<u>502,635</u>
Cash at End of Period	<u>\$ 243,232</u>	<u>\$ 482,235</u>

See accompanying notes.

**KENTON COUNTY GOLF COURSE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – ACCOUNTING POLICIES

The Kenton County Golf Course is a component unit and operating division of the Kenton County Fiscal Court.

Accounting policies reflected in the financial statements included herein are summarized as follows:

Basis of Accounting

The accounting records are maintained on a cash basis. However, the statements presented in this report are prepared on the accrual basis whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. The statements apply all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Flow Information

For purposes of cash flows, cash includes cash on hand, cash in checking accounts and cash in certificates of deposit. All bank balances or deposits as of the balance sheet date are insured or collateralized.

Cash paid for interest in 2002 and 2001 was \$160,588 and \$178,477, respectively.

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property, Plant and Equipment

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method.

Maintenance and repairs are charged to operations when incurred. Significant betterments and renewals are capitalized. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

NOTE 1 – ACCOUNTING POLICIES (Continued)

The useful lives of property, plant and equipment for purposes of computing depreciation are:

Land Improvements	5-40	Years
Buildings	15-50	Years
Driveways	10-15	Years
Power Carts	3	Years
Machinery and Equipment	5-10	Years
Furniture and Office Equipment	5-12	Years

Inventory

Inventory is recorded at the lower of cost (determined on a first-in, first-out basis) or market.

Amortization

Capital lease issuance costs are recorded at cost and are amortized using the straight-line method over the life of the capital lease.

The County sold the 1997 Series Bonds at a discount of \$66,756. This discount is being amortized using the straight-line method over the term of the bonds.

Compensated Absences

It is the County's policy to permit employees to accumulate a limited amount of unused sick leave, a portion of which will be paid to any employee with over ten years of service upon separation from the County's service. Unused vacation can also be accumulated up to certain limits. The cost of the sick leave and unused vacation is accrued in the period it is earned.

NOTE 2 – CASH AND CASH EQUIVALENTS

An analysis of cash and cash equivalents is presented below:

	June 30, 2002		June 30, 2001	
	<u>Per Books</u>	<u>Per Bank</u>	<u>Per Books</u>	<u>Per Bank</u>
Checking-Interest Bearing Petty Cash	\$239,732	\$198,262	\$478,735	\$440,362
	<u>3,500</u>	<u>n/a</u>	<u>3,500</u>	<u>n/a</u>
Total	<u>\$243,232</u>	<u>\$198,262</u>	<u>\$482,235</u>	<u>\$440,362</u>

The amount, per books, includes deposits in transit, outstanding checks and other reconciling items.

The Golf Course maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Amounts in excess of \$100,000 in any one financial institution have additional securities pledged as collateral.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment and the related depreciation is as follows:

	June 30,	
	2002	2001
Land	\$ 354,885	\$ 354,885
Land Improvements	6,777,189	6,777,189
Buildings	1,044,812	1,044,812
Driveways	153,901	153,901
Power Carts	550,148	560,903
Machinery and Equipment	1,524,835	1,395,843
Furniture and Office Equipment	<u>137,658</u>	<u>137,658</u>
	10,543,428	10,425,191
Less Accumulated Depreciation	<u>5,204,867</u>	<u>4,849,405</u>
Total	<u>\$ 5,338,561</u>	<u>\$ 5,575,786</u>

NOTE 4 – LAND COST AND IMPROVEMENTS

From its inception in 1966, the Public Parks Corporation has held title to the initial tract of land upon which the Golf Course is operated. Subsequently, additional purchases of land were made and titled in the name of the Fiscal Court. The cost of these additional tracts are shown in these financial statements since the land was paid for and used by the Golf Course, an operating division of the Fiscal Court.

The land improvement costs shown in these financial statements have been incurred incident to the development of all the land used in the Golf Course operations and have been paid from the earnings of the Golf Course operations.

NOTE 5 – LONG TERM DEBT

Long-term debt consisted of:

	Principal Issued	Interest Rate	Year of Maturity	Balances June 30,	
				2002	2001
First Mortgage Revenue Bonds- 1966	\$ 585,000	5.625%	2001	\$ -	\$ 30,000
Mortgage Revenue Bonds-1997	4,690,000	3.85%-4.6%	2010	<u>3,225,000</u>	<u>3,555,000</u>
Total				3,225,000	3,585,000
Short-Term Portion				<u>345,000</u>	<u>360,000</u>
Net Long-Term Portion				<u>\$2,880,000</u>	<u>\$3,225,000</u>

NOTE 5 – LONG TERM DEBT (Continued)

Requirements for principal and interest payments for the next five years and thereafter are:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 345,000	\$145,593
2004	360,000	130,585
2005	375,000	114,745
2006	390,000	97,870
2007	410,000	80,320
Thereafter	<u>\$1,345,000</u>	<u>\$125,580</u>
	<u>\$3,225,000</u>	<u>\$694,693</u>

Descriptions of debt follows:

First Mortgage Bonds of 1966

The Kenton County, Kentucky Public Parks Corporation issued bonds dated November 1, 1966 in the amount of \$525,000 at a rate of 5.625%. The proceeds from the sale of the bonds were used to pay the costs of improvements to the course.

Mortgage Revenue Refunding Bonds, Series 1997

The Kenton County, Kentucky Public Parks Corporation issued bonds dated September 1, 1997 in the amount of \$4,690,000. The proceeds from the sale of the bonds were used to advance refund the outstanding mortgage revenue bonds, series 1990, of the Corporation, dated March 1, 1990, which were issued to pay the costs of construction, acquisition and installation of the Fox Run Golf Course.

Defeased Debt

In 1998, the County defeased the 1990 Series Bond Issue through the 1997 Series Bond Issue. A separate fund was established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At June 30, 2002 the amount of this defeased debt outstanding amounted to \$3,290,000.

NOTE 6 – EMPLOYEES' RETIREMENT PLAN

Employees who work an average of 100 hours per month or more to participate in the County Employees Retirement System of Kentucky ("CERS") which is a cost sharing multiple-employer public employees retirement system created by and operating under Kentucky Law.

CERS covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

NOTE 6 – EMPLOYEES' RETIREMENT PLAN (Continued)

Participating employees contribute 5% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The Golf Course contributed 6.41%, 7.17% and 7.28% of employees' compensation during the fiscal years ended June 30, 2002, 2001 and 2000, respectively.

The Golf Course's required contribution for pension obligations to CERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$40,272, \$41,939 and \$47,816, respectively; 100% has been contributed for fiscal years 2002, 2001 and 2000.

NOTE 7 – RISK MANAGEMENT

The Golf Course is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Golf Course is covered by Kenton County Fiscal Court's commercial general liability insurance against these risks and all other risks of loss, including Workers' Compensation and employee health and accident insurance.

**KENTON COUNTY GOLF COURSE
STATEMENTS OF OPERATING EXPENSES**

	Years Ended June 30,	
	2002	2001
Operating Expenses		
Payroll Expenses		
Salaries and Wages	\$ 1,011,339	\$ 925,791
Payroll Taxes and Employee Benefits	293,845	277,212
Total Payroll Expenses	<u>1,305,184</u>	<u>1,203,003</u>
Golf Course Expenses		
Chemicals, Fertilizers and Seed	159,161	136,326
Maintenance	42,855	29,510
Gasoline and Oil	29,049	38,261
Repairs of Equipment	65,922	56,938
Water	60,356	89,764
Supplies and Miscellaneous	56,357	33,485
Depreciation and Amortization Expenses -		
Land Improvements and Equipment	<u>377,000</u>	<u>358,019</u>
Total Golf Course Expenses	<u>790,700</u>	<u>742,303</u>
Clubhouse and Pro-Shop Expenses		
Commission Expense	22,522	9,796
Utilities	33,577	27,891
Power Cart Expense	140	-
Supplies and Maintenance	39,351	28,190
Depreciation Expenses - Clubhouse		
Furniture and Office Equipment	<u>100,939</u>	<u>82,764</u>
Total Clubhouse and Pro-Shop Expenses	<u>196,529</u>	<u>148,641</u>
General and Administrative Expenses		
Accounting Fees	7,175	6,350
Telephone	13,152	14,694
Insurance	12,000	14,656
Supplies and Miscellaneous	26,396	24,738
Security Expense	595	480
Travel, Training and Dues	4,392	2,834
Amortization	37,293	37,293
Employee Physicals	<u>4,894</u>	<u>8,098</u>
Total General and Administrative Expenses	<u>105,897</u>	<u>109,143</u>
Total Operating Expenses	\$ <u>2,398,310</u>	\$ <u>2,203,090</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Judge Executive and
Members of Kenton County Fiscal Court

We have audited the financial statements of the Kenton County Golf Course (a component unit of the Kenton County Fiscal Court) as of and for the year ended June 30, 2002, and have issued our report thereon dated August 22, 2002. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits combined in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Golf Course's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Golf Course's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider being material weaknesses.

This report is intended for the information of management and the Kentucky Department of Local Government and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
August 22, 2002

(Intentionally Blank)



August 22, 2002

Judge Executive and Members of
Kenton County Fiscal Court

During our audit of the financial statements of Kenton County Golf Course for the year ended June 30, 2002, we noted the following situations that the Court may want to consider as opportunities to improve operations or controls.

Inventory

Currently, the Golf Course takes a physical inventory at December 31. It is our recommendation that the physical inventory be taken on June 30 to match up with the fiscal year end. This will enable the inventory number to be more accurate.

There were instances noted, where the initial purchases were not entered into the inventory system, therefore as the sales were recorded the inventory values in the system became negative when there was, in fact, inventory on hand.

Gift Certificates

The gift certificate report includes many items that have expired as far back as 1993. This list should be cleaned up and all old items taken off the list.

We want to express our appreciation to the treasurer's office and to the Golf Course staff for their hard work and courteous assistance during the audit.

VonLehman & Company

CPA REPORT ON KENTON COUNY HOUSING, INC (ROSEDALE MANOR NURSING HOME)

KENTON HOUSING, INC.
Financial Statements

December 31, 2002 and 2001

KENTON HOUSING, INC.
Financial Statements
December 31, 2002 and 2001

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To the Board of Directors of
Kenton Housing, Inc.

REPORT OF INDEPENDENT AUDITOR

I have audited the accompanying statement of financial position of Kenton Housing, Inc. (a nonprofit organization) as of December 31, 2002 and 2001 and the related statements of activities, cash flows, functional expenses and supplementary financial information for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of Kenton Housing, Inc. as of December 31, 2002 and 2001 and the changes in its net assets, cash flows, functional expenses and supplementary financial information for the years then ended in conformity with accounting principles generally accepted in the United States of America.



DAVID A. TERRY, P.S.C.

January 17, 2003

- FINANCIAL STATEMENTS -

**To the Board of Directors of
Kenton Housing, Inc.**

REPORT OF INDEPENDENT AUDITOR

I have audited the accompanying statement of financial position of Kenton Housing, Inc. (a nonprofit organization) as of December 31, 2002 and 2001 and the related statements of activities, cash flows, functional expenses and supplementary financial information for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of Kenton Housing, Inc. as of December 31, 2002 and 2001 and the changes in its net assets, cash flows, functional expenses and supplementary financial information for the years then ended in conformity with accounting principles generally accepted in the United States of America.



DAVID A. TERRY, P.S.C.

January 17, 2003

KENTON HOUSING, INC.
STATEMENTS OF FINANCIAL POSITION
As Of December 31,

	<u>2002</u>	<u>2001</u>
Assets		
<u>Current Assets</u>		
Cash and cash equivalents	\$ (11,631)	\$ 103,390
Investments	2,121,734	2,727,966
Accounts receivable (net)	997,057	1,043,815
Inventory	33,497	29,368
Prepaid items	<u>121,717</u>	<u>107,936</u>
 Total Current Assets	 <u>3,262,374</u>	 <u>4,012,475</u>
 <u>Fixed Assets</u>		
Departmental equipment	418,266	489,809
Furniture and fixtures	147,926	172,253
Leasehold improvements	299,034	264,341
Motor vehicles	<u>77,041</u>	<u>84,463</u>
Sub - Total	942,267	1,010,866
Allowance for depreciation	<u>600,185</u>	<u>682,133</u>
 Net Fixed Assets	 <u>342,082</u>	 <u>328,733</u>
 <u>Assets Whose use is Restricted</u>		
Cash - self-insurance fund	1,366	93,075
Cash - personal fund account	45,792	42,642
Investments - board restricted for plant	<u>680,210</u>	<u>730,090</u>
 Total Assets Whose use is Restricted	 <u>727,368</u>	 <u>865,807</u>
 Total Assets	 <u><u>\$ 4,331,824</u></u>	 <u><u>\$ 5,207,015</u></u>

The accompanying notes are an integral part of these financial statements.

KENTON HOUSING, INC.
STATEMENTS OF FINANCIAL POSITION
As Of December 31,

	<u>2002</u>	<u>2001</u>
Liabilities and Net Assets		
Liabilities		
<u>Current Liabilities</u>		
Accounts payable	\$ 201,679	\$ 227,418
Miscellaneous accruals/payables	126,760	52,662
Accrued payroll and related	201,805	270,559
Provision for health insurance	51,368	57,207
Personal fund account	<u>0</u>	<u>42,642</u>
Total Current Liabilities	581,612	650,488
Non-current Liabilities	<u>0</u>	<u>0</u>
Total Liabilities	<u>581,612</u>	<u>650,488</u>
Net Assets		
Unrestricted	3,750,212	4,556,527
Temporarily restricted	0	0
Permanently restricted	<u>0</u>	<u>0</u>
Total Net Assets	<u>3,750,212</u>	<u>4,556,527</u>
Total Liabilities and Net Assets	<u>\$ 4,331,824</u>	<u>\$ 5,207,015</u>

The accompanying notes are an integral part of these financial statements.

KENTON HOUSING, INC.
STATEMENTS OF ACTIVITIES
For The Years Ended December 31,

	<u>2002</u>	<u>2001</u>
Changes in Unrestricted Net Assets		
<u>Operating Support</u>	\$ 9,808,301	\$ 8,921,880
<u>Direct Expenses</u>		
Nursing	5,321,386	5,207,172
Social services	299,447	260,093
Dietary	1,580,987	1,492,925
Laundry	246,586	226,749
Housekeeping	828,030	859,841
Total Direct Expenses	<u>8,276,436</u>	<u>8,046,781</u>
Excess Operating Support over Direct Expenses	1,531,865	875,099
Indirect Expenses (see Supplementary Financial Information)	<u>1,980,677</u>	<u>1,244,933</u>
Excess (Deficiency) of Operating Support over Expenses before Depreciation and Amortization	(448,812)	(369,834)
Depreciation and Amortization (page 9)	<u>80,819</u>	<u>60,040</u>
Excess (Deficiency) of Operating Support over Expenses	<u>(529,631)</u>	<u>(429,874)</u>
<u>Non-Operating Support and Expenses</u>		
Unrestricted donations	0	445
Investment income	122,427	159,929
Net gains / (losses) on investments reported at fair value	(383,719)	(264,670)
Investment fees	<u>(15,392)</u>	<u>(16,913)</u>
Total Non-Operating Support and Expenses	<u>(276,684)</u>	<u>(121,209)</u>
Increase (Decrease) in Unrestricted Net Assets	(806,315)	(551,083)
Changes in Temporarily Restricted Net Assets	0	0
Changes in Permanently Restricted Net Assets	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Assets	(806,315)	(551,083)
Net Assets at Beginning of Year	<u>4,556,527</u>	<u>5,107,610</u>
Net Assets at End of Year	<u><u>\$ 3,750,212</u></u>	<u><u>\$ 4,556,527</u></u>

The accompanying notes are an integral part of these financial statements.

KENTON HOUSING, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended December 31,

Cash Flows From Operating Activities	<u>2002</u>	<u>2001</u>
Increase in Net Assets	\$ (529,631)	\$ (429,874)
Adjustments to Reconcile Change in Net Assets to Net		
Cash Provided by Operating Activities:		
Amortization and depreciation	80,819	60,040
(Increase) Decrease in Operating Assets		
Accounts receivable	46,758	(340,603)
Inventory	(4,129)	(7,874)
Prepaid items	(13,781)	(40,480)
Cash restricted for self-insurance	91,709	178,775
Investments restricted for plant	49,880	27,428
Increase (Decrease) in Operating Liabilities		
Accounts payable	(25,739)	(30,697)
Miscellaneous accruals/payables	74,098	12,595
Accrued payroll and related	(68,754)	12,725
Provision for health insurance	(5,839)	(196,305)
Personal fund account	(42,642)	(8,854)
Net Cash provided by Operating Activities	<u>(347,251)</u>	<u>(763,124)</u>
Cash Flows from Investing Activities		
Payments for fixed assets	(97,318)	(131,554)
Short term investments, net	<u>(276,684)</u>	<u>(121,209)</u>
Net Cash Provided by Investing Activities	<u>(374,002)</u>	<u>(252,763)</u>
Cash Flows from Financing Activities	<u>0</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(721,253)	(1,015,887)
Beginning Cash and Cash Equivalents	<u>2,831,356</u>	<u>3,847,243</u>
Ending Cash and Cash Equivalents	\$ <u><u>2,110,103</u></u>	\$ <u><u>2,831,356</u></u>
Supplemental Disclosure of Cash Information		
Cash paid during the year for:		
Interest expense	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>
Income tax expense	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>
Non-cash financing activities	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

The accompanying notes are an integral part of these financial statements.

KENTON HOUSING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For The Years Ended December 31,

	2002			
	Direct Care	Management and General	Total	2001
Salaries	\$ 5,046,471	\$ 461,646	\$ 5,508,117	\$ 5,280,077
Payroll taxes and employee benefits	1,165,314	106,602	1,271,916	1,133,518
Total Salaries and Related	6,211,785	568,248	6,780,033	6,413,595
Supplies	611,076	58,777	669,853	563,206
Telephone and postage	0	18,022	18,022	25,153
Travel and education	481	18,538	19,019	30,579
Licenses and dues	111	13,477	13,588	22,656
Professional and contract services	866,522	175,246	1,041,768	1,111,038
Provider tax	0	588,730	588,730	155,011
Insurance	0	268,608	268,608	38,826
Plant utilities	0	244,059	244,059	249,274
Small equipment and repairs	18,534	12,339	30,873	70,838
Food	545,432	0	545,432	532,428
Miscellaneous	22,495	14,633	37,128	79,110
Total Expenses before Depreciation	8,276,436	1,980,677	10,257,113	9,291,714
Depreciation	0	80,819	80,819	60,040
Total Expenses	\$ 8,276,436	\$ 2,061,496	\$ 10,337,932	\$ 9,351,754

The accompanying notes are an integral part of these financial statements.

- SUPPLEMENTARY FINANCIAL INFORMATION -

KENTON HOUSING, INC.
SUPPLEMENTARY FINANCIAL INFORMATION
COMPARATIVE STATEMENTS OF INDIRECT
EXPENSES BEFORE DEPRECIATION

For The Years Ended December 31,

Administrative and General	<u>2002</u>	<u>2001</u>
Salaries	\$ 314,858	\$ 332,838
Payroll taxes and employee benefits	72,706	71,453
Supplies	29,746	29,212
Telephone	18,022	25,153
Travel	12,634	10,868
Licenses and dues	13,477	22,217
Professional services	150,516	39,164
Provider tax	588,730	155,011
Insurance	268,608	38,826
Miscellaneous	<u>20,052</u>	<u>37,785</u>
Total Administrative and General	<u>1,489,349</u>	<u>762,527</u>
 Plant Operation and Maintenance		
Salaries	146,788	129,197
Payroll taxes and employee benefits	33,896	27,736
Fuel	44,978	89,897
Electricity	132,976	106,938
Water and sewage	66,105	52,439
Supplies- maintenance and repairs	<u>66,585</u>	<u>76,199</u>
Total Plant Operation and Maintenance	<u>491,328</u>	<u>482,406</u>
 Total Indirect Expenses before Depreciation	 <u>\$ 1,980,677</u>	 <u>\$ 1,244,933</u>

The accompanying notes are an integral part of these financial statements.

KENTON HOUSING, INC.
SUPPLEMENTARY FINANCIAL INFORMATION
COMPARATIVE STATEMENTS OF DEPRECIATION
For The Years Ended December 31,

	<u>2002</u>	<u>2001</u>
Departmental Equipment	\$ 51,350	\$ 30,571
Vehicles	1,482	1,482
Furniture and Fixtures	9,114	9,114
Leasehold Improvements	<u>18,873</u>	<u>18,873</u>
Total Depreciation	\$ <u>80,819</u>	\$ <u>60,040</u>

The accompanying notes are an integral part of these financial statements.

- NOTES TO THE FINANCIAL STATEMENTS -

KENTON HOUSING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kenton Housing, Inc. (aka Rosedale Manor) (the Facility) was incorporated in 1962 as a not-for-profit corporation. The Facility operates a 240 bed nursing home in Covington, Kentucky.

The summary of significant accounting policies of the Facility is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Facility's management, who is responsible for their integrity and objectivity. These financial statements conform to generally accepted accounting principles.

Support and Expenses

The Facility derives a significant portion of its support from a cost reimbursement system funded by the Kentucky Medical Assistance Program. This program reimburses the Facility on a prospective per diem rate established quarterly by the Commonwealth of Kentucky, Department for Human Resources, for residents qualifying for nursing facility care. The support received from the Kentucky Medical Assistance Program is reported as unrestricted support.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Facility reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Facility reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Facility reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

KENTON HOUSING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued -

Charity Care

The Facility has a policy of providing charity care to existing residents to the extent their personal funds and third party reimbursements are insufficient to cover the standard room rates. Such residents are identified based on information obtained from the resident and subsequent analysis. Resident charges that will not be covered due to charity care are adjusted from residents-room and board revenues through the allowance account, subsequently estimated charges for charity care are not included in residents-room and board support.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts, as well as certificates of deposit with maturities of less than 90 days when applicable. At year-end and throughout the year, the Facility's cash balances were deposited in several banks. Management believes the facility is not exposed to any significant credit risk on cash and cash equivalents. Cash balances as of December 31, 2002 are overdrawn. While the general presentation for overdrawn cash is a liability, the Facility has opted to present cash as an asset, in brackets (), for 2002.

For purposes of the statements of cash flows, the Facility considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

In prior years, the Facility recorded investments in short term securities at cost. Effective in 1995, the Facility adopted SFAS NO. 124, Accounting for Certain Investments Held by Not-For-Profit Organizations. Under SFAS NO. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Leasehold Improvements and Equipment

Purchased items are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the facility reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Facility reclassifies temporarily restricted net assets to unrestricted net assets at that time. Substantially all depreciation is computed on the straight-line method based on estimated useful lives of 3 to 20 years on leasehold improvements; departmental equipment, transportation equipment and office furniture and fixtures.

KENTON HOUSING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued -

Inventories

Inventories are valued at the lower of cost or market, determined by the first-in, first-out method. Inventories consist of kitchen and canteen (gift / retail shop) items.

Land and Building

The land and building are the property of the Kenton County Public Properties Corporation. They are made available to the Facility so that long term care is available in Kenton County.

Tax Status

The Facility is a Not-For-Profit organization as described in section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501 (a) of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

Under Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations", the Facility is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Facility is required to present a statement of cash flows.

Contributions

The Organization has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made". Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Contributed Services

During the years ended December 31, 2002 and 2001, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the residents' facilities, but these services do not meet the criteria for recognition as contributed services.

KENTON HOUSING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 2: ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	<u>2002</u>	<u>2001</u>
Kentucky Medical Assistance Program	\$ 668,692	\$ 722,254
Private Pay	152,902	151,735
Medicare	116,237	110,762
Other	<u>64,820</u>	<u>66,184</u>
Sub Total	1,002,651	1,050,935
Allowance for Doubtful Accounts	<u>(5,593)</u>	<u>(7,120)</u>
Total	\$ <u><u>997,058</u></u>	\$ <u><u>1,043,815</u></u>

NOTE 3: PROFIT SHARING PLAN

The Facility provides for an employer sponsored profit sharing plan. The plan covers substantially all full-time employees with more than one year of continuous employment with the Facility. The Facility funded contribution can range from 15% to 0% for eligible employees. Contributions made for the year ended December 31, are as follows:

<u>2002</u>	<u>2001</u>
\$ <u><u>50,004</u></u>	\$ <u><u>50,000</u></u>

NOTE 4: INVESTMENTS

The Facility maintains an investment policy allowing funds to be invested in Government Securities, High Grade Corporate Securities and other Securities as deemed appropriate. The investments are maintained in separate portfolios for Investments - general and Investments - board restricted for plant.

KENTON HOUSING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 4: INVESTMENTS - continued -

The Facility has a board adopted policy of self-imposing a restriction on certain investments. Annually an amount of funds are transferred from investments-general, and cash and cash equivalents, to investments-board restricted for plant. The amount transferred is equal to the annual depreciation and amortization charge. The related earnings and expenses of the investments-board restricted for plant account remain in and are charged to that account. The funds in turn are used for and are available to provide for major alterations, repairs and renovations of the Facility's building and equipment.

The Facility had balances in the accounts on December 31, as follows:

	<u>2002</u>	<u>2001</u>
Investments		
Fair Market Value	\$ <u>2,121,734</u>	\$ <u>2,727,966</u>
Cost Basis	\$ <u>2,121,017</u>	\$ <u>2,481,984</u>
Investments - board restricted for plant		
Fair Market Value	\$ <u>680,210</u>	\$ <u>730,090</u>
Cost Basis	\$ <u>699,844</u>	\$ <u>696,733</u>

As of December 31, the composition of all investments is as follows:

Security	<u>2002</u>	<u>2001</u>
Cash (market yield - 3.2%)	\$ 29,897	\$ 105,079
U.S. Government Obligations (market yield 4.75% - 7.75%)	1,265,810	1,482,596
Common Stock	<u>1,506,237</u>	<u>1,870,381</u>
Fair Market Value	\$ <u>2,801,944</u>	<u>3,458,056</u>
Original Cost	\$ <u>2,820,861</u>	\$ <u>3,178,717</u>

KENTON HOUSING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 5: PERSONAL FUND ACCOUNT

Resident funds are held by the Facility for the daily use of the residents. The funds are held in a separate, interest bearing, FDIC insured account and resident balances are reconciled on a daily basis by bonded employees of the Facility. The funds are reported as cash with a corresponding offsetting liability. As of December 31, the balances were as follows:

	<u>2002</u>	<u>2001</u>
	\$ <u>45,792</u>	\$ <u>42,642</u>

NOTE 6: DISCOUNTS EARNED

Discounts are netted when paid and, therefore, are not disclosed as support.

NOTE 7: HEALTH CARE PROVIDER TAX

The Facility is subject to a provider-based health care tax. For the years ended December 31, 2002 and 2001 the Facility paid \$ 588,730 and \$155,011, respectively.

NOTE 8: CONTINGENT LIABILITIES

Third Party Rate Adjustments and Support

The Facility derives a significant portion of its revenue from a cost reimbursement system funded by the Kentucky Medical Assistance Program. This program reimburses the Facility on a prospective per diem rate established quarterly by the Commonwealth of Kentucky, Department for Human Resources, for residents qualifying for nursing facility care. The Facility presently has 180 of their 240 beds covered by this program. Periodic audits are conducted by the funding source to ensure that proper reimbursement has been provided. As a result of these audits, it is possible that at any given time the Facility could have been over or under reimbursed, consequently a previously unrecorded liability or asset may be incurred as a result of the audit (s). Management believes that the proper amount of reimbursement has been received and that any adjustment, as a result of an audit, would not be material to the financial position of the Facility. Therefore no provision has been made on the financial statements.

<p style="text-align: center;">KENTON HOUSING, INC. NOTES TO THE FINANCIAL STATEMENTS <i>December 31, 2002 and 2001</i></p>

NOTE 8: CONTINGENT LIABILITIES - continued -

Medical Malpractice Coverage

The Facility purchases medical malpractice insurance under an occurrence policy on a fixed premium basis. The current policy has no deductible. The Facility bears risk for the portion of any individual claim exceeding \$1,000,000. The policy provides for aggregate claims up to \$10,000,000 annually. Generally accepted accounting principles require a health care provider to accrue the expense of its share of malpractice claim costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of the incidents. Based upon the Facilities claim experience, administration believes the recording of an accrual is unnecessary.

NOTE 9: CONCENTRATIONS OF CREDIT RISK

The Facility derives a significant portion of its support from a cost reimbursement system funded by the Kentucky Medical Assistance Program.

NOTE 10: FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the direct care and the management and general activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the direct care and management and general activities.

NOTE 11: STOP - LOSS INSURANCE

The Facility is self-funded for employee medical insurance. A stop-loss policy is maintained that limits the amount of employee medical claims the Facility is responsible for to \$ 40,000 per employee annually. As of the end of the year the following amounts have been recognized:

	<u>2002</u>	<u>2001</u>
Cash Restricted	\$ <u>1,366</u>	\$ <u>93,075</u>
Liability Recorded	\$ <u>51,368</u>	\$ <u>57,207</u>
Expense Recorded	\$ <u>614,712</u>	\$ <u>490,425</u>

KENTON HOUSING, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 12: CASH NEEDS

The policy objective is to maintain reserves in the cash (interest bearing) and investment accounts, a cash balance equal to 90 days of projected operating expenses, \$ 250,000 per year for building repairs and replacement, and an amount equal to the capital budget for the next year. The Building Replacement and Major Repairs reserve is decreased by the amount of major repairs actually made and equipment purchased for the year. As of December 31, the cash needs are as follows:

	<u>2002</u>	<u>2001</u>
Projected Operating Expenses	\$ 2,549,937	\$ 2,402,281
Building Replacement and Major Repairs	1,286,187	1,133,505
Capital Budget	<u>175,000</u>	<u>175,000</u>
Cash Balance Desired	4,011,124	3,710,786
Unrestricted Cash & Investments	<u>2,110,103</u>	<u>2,831,356</u>
Balance	\$ <u><u>(1,901,021)</u></u>	\$ <u><u>(879,430)</u></u>

